I. INTRODUCTION

Global trade is the exchange of raw materials, goods and services across the geographical borders of countries across the globe. Foreign trade got its first impetus from the industrial revolution in the late eighteenth and early nineteenth century. Rapid development in transportation facilities resulted in a surge in international trade in the twentieth century. Today, international trade has taken the form of outsourcing and multinational companies (companies that have a presence in several countries). The international trade accounts for a good part of a country’s gross domestic product. It is also one of important sources of revenue for a developing country.

With the help of modern production techniques, highly advanced transportation systems, transnational corporations, outsourcing of manufacturing and services, and rapid industrialization, the international trade system is growing and spreading very fast. It enhances the domestic competitiveness, takes advantage of international trade technology, increase sales and profits, sales potential of the existing products, maintain cost competitiveness in our domestic market, enhance potential for expansion of our business, gains a global market share, reduce dependence on existing markets and stabilize seasonal market fluctuations.

The economic, political, and social significance of international trade has been theorized in the Industrial Age. The rise in the international trade is essential for the growth of globalization. The restrictions to international trade would limit the nations to the services and goods produced within its territories, and they would lose out on the valuable revenue from the global trade. The benefits of international trade have been the major drivers of growth for the last half of the 20th century. Nations with strong international trade have become prosperous and have the power to control the world economy. The global trade can become one of the major contributors to the reduction of poverty.
David Ricardo, a classical economist, in his principle of comparative advantage explained how trade can benefit all parties such as individuals, companies, and countries involved in it, as long as goods are produced with different relative costs. The net benefits from such activity are called gains from trade. This is one of the most important concepts in international trade. Adam Smith, another classical economist, with the use of principle of absolute advantage demonstrated that a country could benefit from trade, if it has the least absolute cost of production of goods, i.e. per unit input yields a higher volume of output. According to the principle of comparative advantage, benefits of trade are dependent on the opportunity cost of production. The opportunity cost of production of goods is the amount of production of one good reduced, to increase production of another good by one unit. A country with no absolute advantage in any product, i.e. the country is not the most competent producer for any goods, can still be benefited from focusing on export of goods for which it has the least opportunity cost of production. Benefits of international trade can be reaped further, if there is a considerable decrease in barriers to trade in agriculture and manufactured goods.

Textiles and clothing are closely related both technologically and in terms of trade policy. Textiles provide the major input to the clothing industry, creating vertical linkages between the two. International trade in the two sectors was regulated by the Agreement on Textiles andClothing (ATC) at the multilateral level, while bilateral and regional trade agreements typically linked the two sectors through rules of origin accompanying preferential market access. At the micro level, the two sectors are increasingly integrated through vertical supply chains that also involve the distribution and sales activities. Indeed, the retailers in the clothing sector increasingly manage the supply chain of the clothing and textiles sectors (Kadeem Brown, 2012).

The pattern and effects of textiles and clothing industries in developing countries has been affected by trade and other economic policies. Countries with adequate public policies and private sectors have used the opportunities provided by temporary trade preferences for the T&C to move up the value added chain but may still have to make full use of the opportunities offered to
develop dynamically and diversify into other activities at a time they are faced with competition from other countries. The potential of the textile and clothing to contribute to long-run growth and development will therefore depend not just on the attributes (desirable or otherwise) of the investor, but also on the quality and effectiveness of government policies and institutions in developing countries (Viswaprakash and Sentamilselvan, 2012).

The textile industry is usually more capital intensive than the clothing industry and it is highly automated, particularly in developed countries. It consists of spinning, weaving and finishing, and the three functions are often undertaken in integrated plants. Traditionally, and in many markets, it is still the case that lead time in the textile sector is quite long and the capital intensity of the industry results in relatively large minimum orders. The industry is therefore less flexible in terms of adjusting to consumer tastes during a season than the clothing and retail sectors. The textile sector is thus in many ways the bottleneck in the supply chain.

The clothing sector is a labour-intensive, low wage industry and a dynamic, innovative sector, depending on which market segments focuses upon. In the high-quality fashion market, the industry is characterized by modern technology, relatively well-paid workers and designers and a high degree of flexibility. The competitive advantage of firms in this market segment is related to the ability to produce designs that capture tastes and preferences, and even better influence such tastes and preferences in addition to cost effectiveness. The core functions of firms servicing this market segment are largely located in developed countries and often in limited geographical areas or clusters within these countries. The clothing sector plays a major role in job creation and many countries have been able to upgrade their clothing sectors by moving from assembly of imported cut fabrics and accessories to full-package production over time. Trade liberalization is important for this upgrading to take place, because a relatively free trade regime provides sufficient flexibility for the production networks to operate and rules of origin become less of a problem (Bair and Gereffi, 2001).
The international trade in textile and clothing sectors has been an egregious exception to the most favoured nation principle of GATT and, since the early 1960s, has been a case of managed trade through forced consensus. However, the WTO Agreement on Textile and Clothing (ATC) marked a significant turn-around. According to the ATC, beginning 1st January 1995, all textiles and clothing products that had been hithertosubjected to MFA-quota, were scheduled to be integrated into WTO over a period of ten years. The dismantling of the quota regime represents both an opportunity as well as a threat. An opportunity because markets will no longer be restricted; a threat because markets will no longer be guaranteed by quotas, and even the domestic market will be opened to competition. From 1st January 2005, therefore, all textile and clothing products could be traded internationally without quota restrictions. And this impending reality brings the issue of competitiveness to the fore for all firms in the textile and clothing sectors, including those in India. It is imperative to understand the true competitiveness of world textile and clothing firms in order to make an assessment of what lies ahead in 2005 and beyond (Samar Verma, 2002).

After more than forty years of import quotas, the textile and clothing sector were become subject to the general rules of the General Agreement on Tariffs and Trade from 1st January, 2005. Liberalization has been controversial because both textile and clothing contribute to employment in developed countries, particularly in regions where alternative jobs may be difficult to find. In the European Union, for example, the sector is dominated by small and medium-sized enterprises concentrated in a number of regions that are highly dependent on this sector. Textiles and clothing are also among the sectors where developing countries have the most gain from multilateral trade liberalization. In fact, the prospect of liberalization of the textiles and clothing sectors was one of the reasons why developing countries accepted to include services and intellectual property rights – areas to which they were skeptical at the outset – in the Uruguay Round (Hildegunn Kyvik Nordas, 2009).
The global textile and clothing industry occupies an important position in the total volume of merchandise trade across countries. Developing countries account for little over two-third of world exports in textiles and clothing. The textile and clothing industry is one of the most globalized sectors, since the early 1970’s was phased out by the World Trade Organization (WTO) between 1995 and 2005 via its arrangement on textile and clothing. Today the world–wide textile and clothing manufacturers and exporters faces two types of issues. The first crisis is regulatory in nature. The Multi-Fiber Arrangement (MFA), which established quotas and preferential tariffs on apparel and textile items imported by United States, Canada and many European small developing economies that relied on apparel exports was that they be pushed out of the global trading system by much larger, low cost rivals, such as China, India, Vietnam, Bangladesh, etc. The second crisis is global economic crisis, which was sparked by the banking meltdown in the United States in 2008 and quickly spread to most of the major industrialized and developing economies, brought in the world brink of the most severe economic crisis since the Great Depression of the 1930’s. Plant closures and worker layoffs in the industrialized nations led to slumping consumer demand, which resulted in fewer orders and shrinking markets for export-oriented economies in the developing world.

The recession hit the textile and apparel industry especially hard, leading to factory shutdowns, sharp increases in unemployment, and growing concerns over social unrest as displaced workers sought new jobs. Due to its global nature, the sector has been highly affected by the current economic crisis. The alarming number of factory closures and lay-offs as a result of the crisis exposed the sector’s vulnerability may have aggravated the social conditions of millions of workers whose livelihoods depend on it. Some garment-manufacturing countries have been struck so hard by the crisis that they face a permanent cessation of business activity. Global Economic Crisis that began as a collapse in US Sub Prime Market soon spread to distort and wreck the world’s financial system. After about six years of exceptional growth (2001-06), the world economy has now entered a period of instability and uncertainty due to a Global Financial Crisis (GFC). The present financial crisis
springs from a catastrophic collapse in confidence and the failure of global financial architecture that failed to regulate the working of banks. With its origins in the developed advanced countries, it soon enveloped the entire globe. Developing countries are expected to face severe cuts in export led demand that may slow down growth in foreign trade oriented sectors of the economy.

The World Bank, in its Global Economic Prospects report (2010), noted that world trade volume would fall for the first time in 26 years by 2.1 per cent. Competitiveness is an indicator of the ability to supply goods and services at the location and in the form and at the time sought after by buyers, at prices that are as good as or better than those of potential suppliers, while earning at least the opportunity cost of returns on resources employed. Thus, a competitive firm or industry or country have the ability to satisfy the consumer with a product of the right price, right quality, right packaging etc. i.e., creating place, time and form utility. Such an institution therefore beats the competitors for the scarce Dollars and Pounds of the consumer.

The study computed the Balassa Revealed Comparative Advantage (BRCA), White’s Revealed Competitive Advantage (WRCA) indices followed by an examination of trade pattern in a longitudinal perspective. The BRCA and WRCA indices have been computed in absolute terms for various years over time across countries stage wise. The revealed competitive advantage (Net Comparative Advantage) is calculated which gives importance to import performance of a country also. Changing patterns of comparative advantage in textiles and clothing have been compared across major country-groups by computing the G-L(Grubel-Lloyd) indices of trade pattern. Comparative advantage is an important concept to both policymakers and practitioners. The principle of comparative advantage is one of the oldest and most important concepts in economics but some ambiguity remains regarding its meaning, scope and measurement.

The nature of an economy’s comparative advantage has utility as it can help to identify the implications for an economy of a shift in a policy regime and to determine the influence on economic welfare both in the long run and in the
short run. An understanding of comparative advantage provides clearer directives regarding the direction that an economy’s trade and investment regime should adhere to in order to benefit from explicit differences in international factor endowments and relative demand. Gains from international trade are realized due to an improvement in the allocation of scarce resources when an economy produces its comparative advantage (Roger Hosein, 2008).

The era of globalization since the late 1940s has dramatically changed the world’s trading patterns, as well as the measures employed by countries to survive in a world where trade is being liberalized. With the gradual reduction in trade barriers led by the process of globalization, more emphasis is now being placed on promoting export competitiveness. Competitiveness by any means is not a new issue, as it seems nowadays. This concept has become more fashionable because of the markets liberalization and the emphasis in a more global economy. Competition used to be more localized within regions and nations but now, with an increasing international trade, it applies everywhere. Competitors are not fully identified as they used to be and now they might come from faraway places, which it was not the case previously.

Intra-industry trade represents international trade within industries rather than between industries. Such trade is more beneficial than inter-industry trade because it stimulates innovation and exploits economies of scale. Intra-industry trade refers to the exchange of similar products belonging to the same industry. The term is usually applied to international trade, where the same types of goods or services are both imported and exported. Intra-industry trade is more beneficial than inter-industry trade because it (1) stimulates innovation and (2) exploits economies of scale. Moreover, since productive factors do not switch from one industry to another, but only within industries, intra-industry trade is less disruptive than inter-industry trade (e.g., on income distribution).

The significance of intra-industry trade arises from its basic character: it need not be based on comparative advantage. To a large extent intra-industry
trade arises from the facts that products are differentiated and the production of any particular product requires costs. Some elements of comparative advantage may be involved. To the extent that comparative advantage is not involved, the pattern of trade is indeterminate. When economies of scale are involved, who exports what can be determined by the accident of history. One of the great benefits of intra-industry trade is that international trade need not cause the dislocations associated with inter-industry trade. Stolper–Samuelson theorem suggests that international trade can cause reallocation of income from scarce factors to abundant factors. But if most international trade is intra-industry, the impact on internal income distribution should be relatively minor. If trade is not based on scarce and abundant factors of production, it does not result in reduced demand for the scarce factors and increased demand for the abundant factors; thus, trade expansion need not result in large changes in the distribution of income.

Intra-industry trade enhances the gains from trade through better exploitation of economies of scale—rather than through comparative advantage—as trade leads countries to concentrate on a limited number of products within any particular industry. This leads to an expansion of world output because of the saving of fixed costs. Specialization within industrial categories may also stimulate innovation. Producing a greater variety and number of goods increases our general knowledge about technology, and greater knowledge implies smaller costs of knowledge accumulation.

Finally, intra-industry trade reduces the demands for protection because in any industry there are both exports and imports, making it difficult to achieve unanimity among those demanding protection (Marvel and Ray 1987). Intra-industry trade need not give rise to a justification for a strategic trade policy, which is, giving export subsidies to correct for departures from perfect competition. Nowadays many intra-industry trade takes place under imperfect Intra-industry trade represents international trade within industries rather than between industries. Such trade is more beneficial than inter-industry trade because it stimulates innovation and exploits economies of scale. Moreover, since productive factors do not switch from one industry to
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India's Economic Planning since 1951-1952 led the country to adopt LPG (Liberalization, Privatization, and Globalization) Policy in 1991 and achieve a GDP of 9 per cent in 2007-08. In 2007, economic crisis gripped the US and by late 2009, it hit European countries too. Due to this, India's GDP growth rate declined to 6.5 per cent in 2011-12. The Indian textile industry is one of the largest textile industries in the world and India earns around 27 per cent of the foreign exchange from exports of textiles and related products. The textiles and garment industry is the second-largest employer in India after agriculture. India exports about 50 per cent of the total production of textiles and garment of which, 60 per cent is exported to the US and the European Union countries. The country had exported textile products worth $34 billion in 2011-12, up 26 per cent from a year before, despite the global macro-economic crisis, partly due to a 15 per cent depreciation of the rupee against the dollar. AEPC estimates that more than 125 cotton and man-made fibre textile mills have closed down in the last three years. Moreover, the existing textile companies are facing a huge setback in exports owing to slowdown in the US and Europe. This has forced the Indian textiles sector to bear high cost of credit and increase in raw material prices (Buvaneswari, 2012).

Tirupur, the well-known textile hub of India, has more than 5,000 garment manufacturing and job work units in the district. Tirupur is the biggest centre for exports of knitwear in India and seen as one of the most dynamic garment clusters in the “developing” world. Nearly 6 lakh people of Tirupur are dependent for livelihood on garment manufacturing and related industries. In fact, when the textile industry was booming, Tirupur was portrayed as 'Dollar City' and 'Little Japan' by media. From Tirupur 55 per cent to 60 per cent of exports are targeted at the European market and 30 per cent at the US market. Up to 2006-07, the growth registered at an average of 10 - 12 per cent year-on-year basis. In 2006-07, Tirupur had earned around ₹ 11,000 crore in foreign exchange. But in 2007-08, it declined to ₹ 9,950 crore. For the last three years the growth has remained at around ₹ 11,500 - 12,500 crore. While it
should have reached about ₹ 17,000 crore in the financial year 2011-12, this stagnation brought on by a combination of global and local issues have shaken the foundation of the industry (Buvaneswari, 2012).

In 2007, economic crisis hit the United States of America and in late 2009 it spread to European countries. The growth of Tirupur textiles did not continue for long time due to growing global economic crisis and with the rising cotton prices, Tirupur faced many serious troubles. Just some time before the global financial crisis began, Tirupur garment export business was hit by the appreciation of rupee value against US dollar. Then they were hit by the global financial crisis.

While the Central Government was deciding to take out cotton from the list of essential commodities, it was open for speculation by the online trading companies. Its price, per candy, consequently went up from ₹ 28,400 to ₹ 65,000, directly affecting the yarn price (the major raw material for garment). The cotton yarn price jumped from ₹ 110 to ₹ 200 and has been increasing since then. As a result of all this, the industry lost around ₹ 1,500 crore. Because of the global economic crisis, the following factors affected the exporters. In general, the production cost of garment soared to a very high and it has become very difficult to compete with other countries. Due to economic crisis in US & Europe, the buyers are asking for discount in the garment price. With increases in cost of raw material, power, labour, dyeing, fuel etc., it has become very difficult to get orders from buyers. Also, internal problems like high interest rates threaten to derail growth of Tirupur garment export. In volume terms, business is down 15 per cent. But in real terms, if you see with price hikes and dollar rate hikes over the past one year, business is down by over 30 per cent for a city that does exports worth ₹ 12,500 crore (Buvaneswari, 2012).

Tirupur garment industries reveal that the capacity utilization by the industry is not more than 50 - 60 per cent for bigger exporters and 30 per cent for medium and small exporters. It is seen that 10 per cent of exporters without work for more than six months, many of whom are on the verge of closure. Thousands of workers lost jobs and are in severe distress. According
to Tirupur Exporters Association, more than 20,000 workers lost their jobs in just one year. Most of those employed are actually on contract basis and are easier to get rid of when required. In view of the above points in this study an effort is being made to analyse the impact of quota liberalization and global economic crisis on textile and clothing trade by taking into account the major exporters and importers of world trade at the macro level and at the micro level the impact was analysed by conducting an opinion survey from the hosiery exporters of Tirupur, the well-known textile hub of India. The present study attempts to analyse the impact of quota liberalization and global economic crisis stage wise while the past studies have attempted to analyse over a period of time.

OBJECTIVES

The specific objectives of the study are to:

a) Find out the share of textiles and clothing in world trade.

b) Analyze the comparative advantage in textiles and clothing trade across major country-groups.

c) Measure competitive advantage (net comparative advantage) in textiles and clothing trade across major country-groups.

d) Compute changing pattern of trade in textiles and clothing across major country-groups.

e) Study the impact of quota liberalization and global economic crisis on hosiery exports of Tirupur located in India.

HYPOTHESES

The following hypotheses were tested:

a) The comparative advantage from textiles and clothing trade of major exporters were significantly high in all the stages of quota liberalization and global economic crisis.

b) The pattern of trade was purely intra-industry type in textiles and clothing trade in all the stages of quota liberalization and global economic crisis.

c) The competitive advantage was more for both textiles and clothing trade in all the stages of quota liberalization and global economic crisis.

d) There were no differences in the opinion among the exporters about the impact of quota liberalization and global economic crisis.